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CURRENT SUPPORT BRIEF

THE ALBANIAN THIRD FIVE-YEAR PLAN AND EXTERNAL AID

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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Since World War II the Albanian economy has been subsidized, first by Yugoslavia and then by the USSR and other members of the Sino-Soviet Bloc. The conservative nature of the draft of the Third Five-Year Plan (1961-65) probably reflects the Albanian regime's uncertainty concerning the extent of foreign aid likely to be received during the plan period, considering the generally pro-Chinese position taken by Albania in the current Soviet-Chinese ideological dispute. Difficult economic problems for Albania could result from this position, if it reduced Bloc aid to the country.

The draft directives of the Albanian Five-Year Plan call for a much lower rate of industrial growth than has been achieved in any comparable period since the war. Gross industrial production is scheduled to increase by 8.6 percent annually, compared with a claimed yearly rate of increase of 16.3 percent during 1956-60 and of 22.8 percent during 1951-55. In this still backward economy, a planned 55-percent growth in the national income is based primarily on highly uncertain developments in agriculture, the output of which is scheduled to rise by an extremely ambitious 64 percent. Although total state investments are to rise by 47 percent compared with those of the Second Five-Year Plan, they must grow at a uniform annual rate of only about 4 percent from the 1960 level in order to reach the announced total for the period 1961-65. This rate represents a drastic cutback from the 19-percent rate achieved during the period 1956-60. Plans also call for a 36-percent increase in domestic trade turnover and a 50- to 55-percent increase in exports. No plan has been published for imports.

The planned rate of growth of industrial production is among the lowest of the European Satellites, whereas in previous years Albania often claimed the highest rate in the area. Although some decline in the rate of growth could be expected, the extent of the projected decline is striking, particularly for a country still at a very early stage of industrialization. To a very great extent Albanian industrialization is linked to foreign assistance; in view of Albania's generally pro-Chinese position in the ideological dispute between the USSR and the Chinese, the Albanian regime may well be uncertain as to how much aid it can expect to receive during the Third Five-Year Plan. Credits already available appear to be insufficient to support even the present plan.

Investments and industrial production in Albania depend heavily on imports; indigenous production of machinery and equipment is negligible. Imports are also virtually the only sources of most metals and chemical fertilizers and are important sources of some manufactured consumer goods and agricultural products, especially wheat.

In all years for which statistics are available, Albania has incurred a large deficit in commodity trade. The Albanian economy was sustained by aid from Italy before World War II, from Yugoslavia in the immediate postwar period, and from the European Satellites, China, and especially the USSR since the Bloc's 1948 break with Yugoslavia. Albania's annual deficit on commodity trade since 1950 has ranged from about 50 to 75 percent of the value of imports.

Between 1950 and 1955, known long-term credits from countries of the Sino-Soviet Bloc apparently were almost sufficient to cover the commodity trade deficit. During 1956-60, however, the known long-term credits were considerably smaller than the trade deficit. Albania probably filled the remaining trade gap by means of unpublicized

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credits and with receipts from the local expenditures of Soviet Bloc technicians in Albania and from services such as those that may be connected with the construction and operation of the Soviet submarine base at Pasha Liman. The following tabulation shows the estimated Albanian trade deficits, long-term credits, and service receipts and/or unspecified credits for selected periods. Albania's foreign currency earnings for transportation services are undoubtedly smaller than expenditures; this net addition to the trade deficit has not been taken into consideration in the tabulation or in the discussion.

Albania: Foreign Trade and Aid
(in million US dollars)

	1950-55	1956-60	1961-65, assuming an increase in imports over 1960* of		
			0%	25%	50%
Imports	202	348	454	521	582
Exports	64	147	233	233	233
Commodity trade deficit	138	201	221	288	349
Average annual trade deficit	23	40	44	58	70
Long-term credit utilized or planned to be utilized:**					
Total	119	144	107	107	107
From USSR	83	83	75	75	75
From European Satellites	30	43	18	18	18
From China	6	18	14	14	14
Unspecified credits and/or service receipts	19	57	--	--	--
Additional credits and/or service receipts needed for period	--	--	114	181	242
Additional credits and/or service receipts needed per year	--	--	23	36	48

* Assuming for 1960, exports of about 1.8 billion leks and imports of about 4.5 billion leks. From 1960 to 1965 exports are assumed to increase by 55 percent.

** Periods of utilization have been estimated on the basis of incomplete information.

For 1961-65, the known credits of about \$107 million already promised Albania by the Sino-Soviet Bloc would not be sufficient, given the Albanian export plan, to finance even the present level of imports. Under selective assumptions on changes in imports for the period 1961-65, Albania will need about \$220-350 million in credits (\$44-70 million per year), less possible receipts from services, to meet the goals set forth in the Third Five-Year Plan. Thus, Albania would have to find \$114-242 million in additional credits (less service receipts) during the period to fill the gap between the projected deficit and the credits already promised.

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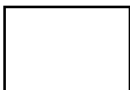
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Projections of past trends in the relationship between investments and imports suggest that, if the goals of the Third Five-Year Plan are to be met, imports will have to increase by at least 25 percent (the intermediate assumption in the table), with a resultant annual average trade deficit of \$60 million or more. Given the nature of the Albania economy, a substantially reduced growth of imports could seriously inhibit further industrialization of the country, although the simple level of living, which depends in most essentials on domestic production, would not necessarily be affected.

Albania's great economic dependence on the Soviet Bloc, and especially on the USSR, makes it vulnerable to economic sanctions. The USSR could create a very difficult economic situation in Albania simply by refusing to grant new credits and by preventing the European Satellites from doing so. Withdrawal of aid already promised and an embargo on exports would, of course, be even more effective weapons. However, the USSR may not contemplate the use of severe sanctions, and additional credits quite possibly will be granted by Soviet Bloc countries. Even so, it is very uncertain that total credits extended by the Soviet Bloc will be sufficient to support Albania's present moderate industrialization plan for 1961-65.

Communist China, which has already granted small credits to Albania, represents an obvious substitute source of credits. The Chinese probably could give Albania whatever aid it would need, although some types of goods, now supplied by the USSR or the European Satellites and not exported in sufficient quantities or appropriate types by China, would have to be purchased--probably outside the Bloc--with foreign exchange provided by the Chinese. However, despite the small size of the aid involved in relation to China's total economic capabilities, such aid would impose a significant additional burden on China's already strained balance of payments. Actual aid expenditures by China have been about \$90-110 million annually in recent years (1955-59), and about \$125-150 million were allocated for use in 1960. Extension of aid to Albania of, for example \$40 million a year, would require either a substantial increase in the total aid program of Communist China or a substantial cut in its aid commitments to other countries. Albania, moreover, produces few goods--and these in very small volume--that the Chinese need, or are likely to need in the future. Only in the expectation of major political gains, therefore, would the Chinese be likely to give large-scale economic aid to Albania.

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